

## Washout quarter; merger key catalyst ahead...

**About the stock:** Zee Entertainment (Zee) is one of the largest listed media companies in India, which owns and operates a bouquet of 49 TV channels across 11 languages and also an OTT app Zee5.

- The company's TV network viewership share was at 16.4% in Q4FY23 (16.2% in Q3FY23)

**Q4FY23 Results:** Zee reported a washout Q4FY23 performance.

- Ad revenues declined 10.2% YoY to ₹ 1006 crore, with domestic ad decline of ~10.2% YoY owing to weak ad spending by key segment (FMCG), impact of exit from free to air and pullout from few cable networks amid New Tariff Order (NTO) 3 standoff in February for a couple of weeks. Overall subscription revenues were down ~1% YoY to ₹ 847 crore
- EBITDA came in at ₹ 152 crore, down 68.8% YoY, with margins at 7.2% (down 882 bps QoQ), owing to high content cost from movie releases along with higher content cost for Zee5 and sports loss
- The company reported a loss of ₹ 196 crore as it provided for one-time exceptional items of ₹ 73 crore towards merger expenses, ₹ 27 crore towards IPRS settlement and ₹ 97.6 crore towards impairment of SugarBox. Adjusted loss was at ₹ 8.5 crore

**What should investors do?** Zee's share price has declined ~66% over the past five years, owing to promoter debt issue and business challenges.

- We cut our earnings estimates but maintain **BUY**. **Merger consummation along with gradual ad growth recovery remain key triggers**

**Target Price and Valuation:** We value Zee at ₹ 220, at 18x FY25 P/E

**Key triggers for future price performance:**

- Overall viewership share improvement, which remains sub optimal. Turnaround in some key regional markets like Tamil/Marathi as well as Hindi GEC, where it has lost viewership market share. This would also drive recovery in margin performance and cash flow generation
- Consummation of merger with Sony

**Alternate Stock Idea:** Besides Zee, we like PVR in the media space.

- A play on recovery and consolidation of multiplexes
- BUY with a target price of ₹ 1640



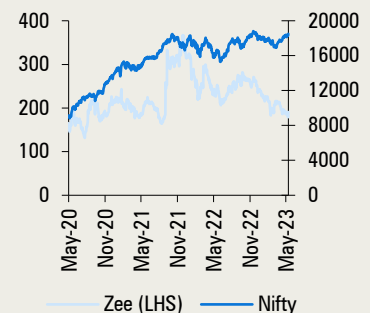
### Particulars

Particulars	Amount
Market Cap (₹ crore)	18,326
Total Debt (₹ crore) FY23	6
Cash & Inv. (₹ crore) FY23	804
EV (₹ crore)	17,528
52 week H/L (₹)	287/ 176
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	4.0	4.0	4.0	4.0
DII	30.2	31.0	37.5	38.2
FIs	39.2	38.7	37.3	36.4
Other	26.6	26.4	21.2	21.4

### Price Chart



### Key risks

**Key Risk:** (i) Delay in market share and ad recovery (ii) Sustained lower margins

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	5 year CAGR FY18-23	FY24E	FY25E	2 year CAGR FY23-25E
Net Sales (₹ crore)	8,129.9	7,729.9	8,189.3	8,087.9	3.9	8,642.2	9,495.6	5.5
EBITDA (₹ crore)	1,634.6	1,790.1	1,722.1	1,101.1	(11.9)	1,383.9	1,847.5	18.8
Net Profit (₹ crore)	526.5	800.1	964.6	47.8		816.6	1,170.8	
Adjusted Nat Profit (₹ crore)	1,661.5	984.9	1,054.6	513.5	(18.1)	816.6	1,170.8	31.6
EPS (₹)	5.5	8.3	10.0	0.5		8.5	12.2	
P/E (x)	34.8	22.9	19.0	383.2		22.4	15.7	
Price / Book (x)	1.8	1.7	1.7	1.7		1.7	1.6	
EV/EBITDA (x)	10.6	9.2	9.9	15.9		12.5	9.3	
RoE (%)	16.7	9.4	9.7	4.8		7.4	10.0	
RoCE (%)	13.9	13.7	14.6	7.9		10.1	13.5	

Source: Company, ICICI Direct Research

## Key performance highlight and outlook

### Challenging ad environment...

The company indicated that the ad decline was owing to exit from FTA and challenging macro environment impacting ad spends, especially from key segments like FMCG. We also highlight that Q4 saw channels pullout from a few cable networks amid New Tariff Order (NTO) 3 standoff in February for a couple of weeks (resolved later). Consequently, domestic ad declined 10.2% YoY. The company's TV network viewership share was at 16.4% (up 20 bps. QoQ). The company indicated that **FY23 was a challenging year for the industry due to weak ad spends, prolonged delay in NTO 3 implementation and sub-par movie slate**. The company continues to focus on fresh content strategy for viewership improvement in Hindi, Marathi and Tamil. **We expect a growth recovery only in H2FY24. We bake in ~11% CAGR in ad revenues in FY23-25E, with major growth recovery from H2FY24 onwards. Overall subscription revenues declined 1% YoY to ₹ 847 crore, with growth in Zee5, while linear TV struggled. NTO 3 implementation has been mandated with effect from February, 2023. We highlight that the company had earlier indicated subscription revenues to be in healthy single digits post NTO 3 implementation. We bake in subscription CAGR of ~6.5% in FY23-25E with tailwinds largely from Zee5.**

### Healthy growth for Zee5; losses widen with high content spend

Zee5's revenues were at ₹ 220 crore during the quarter, up 36% YoY and ~13% QoQ, driven by strong content slate addition. Zee5 reported operating losses of ₹ 311 crore vs. losses of ₹ 282 crore in Q3 with high content spends during the quarter. The company indicated that focus is on getting more watchtime. **Zee5 saw the launch of 42 new shows and movies in Q4FY23, including 12 originals.** The company indicated that investment in content (on both OTT and linear TV), will continue to capture viewership and engagement share despite the near-term revenue headwinds on the ad revenue front. It indicated that capital allocation towards regional movies would remain high and its aim was to expand movie production with a strong slate of movies across regional languages of Tamil, Telugu, Marathi and Punjabi.

### Other highlights

- **Progress on merger with SPNI:** The company awaits NCLT approval. A meeting has been convened on June 16, 2023. We highlight that the company has settled with almost all creditors. Further, the Mumbai bench of the National Company Law Tribunal (NCLT) has directed the National Stock Exchange and Bombay Stock Exchange to reconsider their respective initial approvals for the Zee-Sony merger and issue updated no-objection certificates. Nonetheless, the company has contested the decision and won the plea in the Appellate tribunal. Thus, with major hindrances done away with, merger is a matter of when, not if
- **One off items and dues from related parties:**
  - One off included ₹ 73 crore towards merger expenses, ₹ 27 crore towards IPRS settlement and ₹ 97.6 crore towards impairment of SugarBox
- **Other:**
  - Cash and treasury investment was at ₹ 804 crore

**The rebound in market share in Hindi GEC and Marathi/Tamil will be key to overall market share and ad recovery. We cut our earnings estimates but maintain BUY rating. Gradual ad recovery from FY24 and likely merger consummation, remain key triggers. We believe the combined entity will have a strong competitive positioning in both linear and digital segments. We value the stock at 18x FY25 P/E with target price of ₹ 220/share (₹ 260, earlier).**

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
Revenue	2,112.1	2,031.1	2,322.9	2,111.2	-9.1	0.0	
Other Income	14.2	20.0	58.5	21.8	-75.6	-34.8	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	215.4	223.4	218.9	216.5	-1.6	-0.5	
Admin & Other Expenses	152.1	213.3	146.5	180.4	3.8	-15.7	
Marketing Expenses	270.7	264.0	213.1	242.0	27.0	11.9	
Operational Cost	1,322.2	1,117.1	1,257.9	1,134.4	5.1	16.6	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	151.7	213.3	486.6	338.0	-68.8	-55.1	
EBITDA Margin (%)	7.2	10.5	20.9	16.0	-1376 bps	-882 bps	
Depreciation	83.3	86.1	67.7	91.3	23.2	-8.7	
Interest	39.6	12.0	38.1	13.1	4.2		
Total Tax	26.0	35.0	157.2	61.9	-83.5	-58.0	
PAT	-196.0	100.3	181.9	24.3	-207.8	-906.4	

Key Metrics

Ad Revenue Growth	-10.2%	-12.2%	-0.3%	-15.6%
Domestic Subscription	0.4%	0.9%	-1.1%	11.2%
International Subscription %	-8.9%	-5.0%	107.6%	30.7%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY24E			FY25E			
	Old	New	% Change	Old	New	% Change	
Revenue	8,892.9	8,642.2	-2.8	9,799.0	9,495.6	-3.1	
EBITDA	1,645.2	1,383.9	-15.9	2,155.8	1,847.5	-14.3	
EBITDA Margin (%)	18.5	16.0	-249 bps	22.0	19.5	-254 bps	Lower the margin on high content spends
PAT	1,010.7	816.6	-19.2	1,404.7	1,170.8	-16.7	
EPS (₹)	10.5	8.5	-19.2	14.6	12.2	-16.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Ad Revenue Growth	20%	-7%	-20%	17%	-8%	10%	12%
Domestic Subscription	17%	33%	14%	-2%	2%	6%	8%
International Subscription %	-1%	-16%	1%	15%	12%	1%	7%

Source: Company, ICICI Direct Research

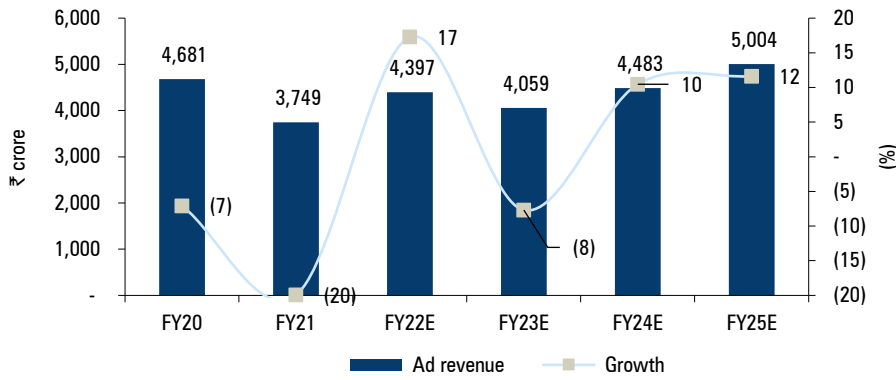
Exhibit 4: Zee5 KPI

Zee 5 Variable	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Monthly Active Users (mn) - MAU	52.9	54.7	65.9	72.6	80.2	93.2	101.9	104.8	103.3	112.4	119.5	113.8
Daily Active Users (mn) - DAU	4.0	5.2	5.4	6.1	7.1	9.3	9.6	10.5	11.3	11.4	11.5	11.1
Watch Time per month (min)	112	152	133	156	190	186	201	214	196	198	169	229
Revenues (₹ crore)	94.9	98.9	117.8	107.5	111.7	130.5	145.9	161.4	159.7	167.1	194.3	220.0
EBITDA (₹ crore)	-145.1	-189.4	-175.7	-162.5	-203.3	-172.0	-182.8	-195.2	-235.2	-276.9	-282.0	-310.9
Original Shows released					11	13	11	13	8	6	6	12

Source: Company, ICICI Direct Research

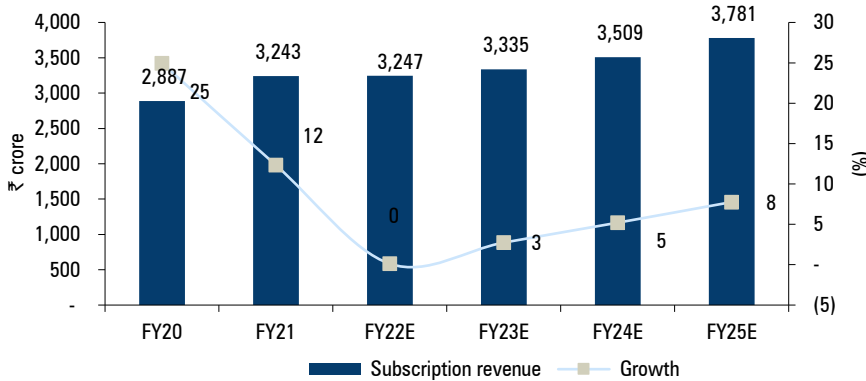
### Story in charts

Exhibit 5: Ad revenue growth trend



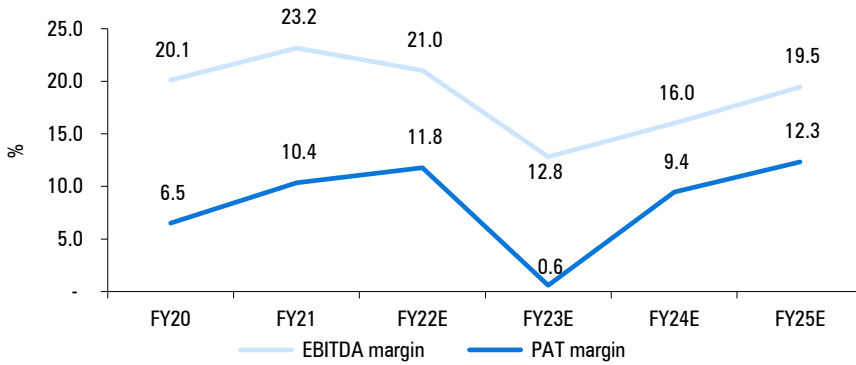
Source: Company, ICICI Direct Research

Exhibit 6: Subscription revenue growth trend



Source: Company, ICICI Direct Research; includes music from H2FY21

Exhibit 7: EBITDA and margin trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Total operating Income</b>	<b>8,189</b>	<b>8,088</b>	<b>8,642</b>	<b>9,496</b>
Growth (%)	5.9	-1.2	6.9	9.9
Operational Cost	4,045	4,469	4,537	4,818
Employee Expenses	864	824	924	969
Admin & Other Expenses	694	639	665	722
Marketing Expenses	864	1,055	1,132	1,139
Total Operating Expenditure	6,467	6,987	7,258	7,648
<b>EBITDA</b>	<b>1,722</b>	<b>1,101</b>	<b>1,384</b>	<b>1,848</b>
Growth (%)	-3.8	-36.1	25.7	33.5
Depreciation	246	313	346	361
Interest	45	70	57	62
Other Income	118	86	110	140
Exceptional Items	133	539	0	0
PBT	1,415	265	1,091	1,565
Minority Interest	-9	0	0	0
PAT from Associates	0	0	0	0
Total Tax	460	217	275	394
<b>PAT</b>	<b>965</b>	<b>48</b>	<b>817</b>	<b>1,171</b>
Growth (%)	20.6	-95.0	1,607.7	43.4
<b>Adjusted PAT</b>	<b>1,055</b>	<b>514</b>	<b>817</b>	<b>1,171</b>
Growth (%)	7.1	-51.3	59.0	43.4
<b>Reported EPS (₹)</b>	<b>10.0</b>	<b>0.5</b>	<b>8.5</b>	<b>12.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	10,766.7	10,625.8	10,962.2	11,652.8
Total Shareholders funds	10,862.8	10,721.9	11,058.3	11,748.8
Total Debt	3.5	5.9	5.9	5.9
Others	72.8	276.1	276.1	276.1
<b>Total Liabilities</b>	<b>10,939.1</b>	<b>11,003.9</b>	<b>11,340.3</b>	<b>12,030.9</b>
Gross Block	2,259.9	2,722.1	2,972.1	3,222.1
Less: Acc Depreciation	1,379.8	1,692.5	2,038.2	2,399.0
Net Block	880.1	1,029.6	933.9	823.1
Capital WIP	87.1	19.1	19.1	19.1
Total Fixed Assets	967.2	1,048.7	953.0	842.2
Goodwill	345.0	330.2	330.2	330.2
Investments	65.1	34.9	34.9	34.9
Inventory	6,386.2	7,307.9	7,103.2	7,804.6
Debtors	1,737.5	1,608.8	1,719.0	1,888.8
Loans and Advances	1,252.3	1,202.1	1,284.5	1,411.3
Other Current Assets	506.1	363.4	388.3	426.6
Cash	1,273.3	804.0	1,050.0	1,064.9
Total Current Assets	11,155.4	11,286.2	11,545.0	12,596.2
Creditors	1,371.9	1,749.4	1,539.0	1,691.0
Provisions	115.9	149.7	131.7	144.7
Other current liabilities	812.7	804.0	859.1	944.0
Total Current Liabilities	2,300.5	2,703.1	2,529.9	2,779.7
Net Current Assets	8,854.9	8,583.1	9,015.2	9,816.5
Other non current assets	706.8	1,007.1	1,007.1	1,007.1
<b>Total Assets</b>	<b>10,939.0</b>	<b>11,003.9</b>	<b>11,340.3</b>	<b>12,030.9</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Profit after Tax</b>	<b>965</b>	<b>48</b>	<b>817</b>	<b>1,171</b>
Add: Depreciation	246	313	346	361
Add: Interest paid	45	70	57	62
(Inc)/dec in Current Assets	-1,054	-600	-13	-1,036
Inc/(dec) in CL and Provisions	12	403	-173	250
Others	0	0	0	0
<b>CF from op. activities</b>	<b>214</b>	<b>233</b>	<b>1,033</b>	<b>807</b>
(Inc)/dec in Investments	733	30	0	0
(Inc)/dec in Fixed Assets	-327	-394	-250	-250
Others	186	-82	0	0
<b>CF from inv. activities</b>	<b>592</b>	<b>-446</b>	<b>-250</b>	<b>-250</b>
Issue/(Buy back) of Equity	0	0	0	0
Issue of Preference Shares	-383	0	0	0
Inc/(Dec) in loan funds	1	2	0	0
Interest paid	45	70	57	62
Others	-287	-329	-594	-604
<b>CF from fin. activities</b>	<b>-624</b>	<b>-256</b>	<b>-537</b>	<b>-542</b>
Net Cash flow	183	-469	246	15
Opening Cash	1,091	1,273	804	1,050
<b>Closing Cash</b>	<b>1,273</b>	<b>804</b>	<b>1,050</b>	<b>1,065</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	10.0	0.5	8.5	12.2
Adjusted EPS	11.0	5.3	8.5	12.2
BV	113.1	111.6	115.1	122.3
DPS	3.0	5.0	5.0	5.0
Cash Per Share	14.4	17.6	21.2	25.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	21.0	13.6	16.0	19.5
EBIT Margin	18.0	9.7	12.0	15.7
PAT Margin	12.9	6.3	9.4	12.3
Inventory days	284.6	329.8	300.0	300.0
Debtor days	77.4	72.6	72.6	72.6
Creditor days	61.1	78.9	65.0	65.0
<b>Return Ratios (%)</b>				
RoE	9.7	4.8	7.4	10.0
RoCE	14.6	7.9	10.1	13.5
RoIC	15.8	8.2	10.6	14.1
<b>Valuation Ratios (x)</b>				
P/E	19.0	383.2	22.4	15.7
EV / EBITDA	9.9	15.9	12.5	9.3
EV / Net Sales	2.1	2.2	2.0	1.8
Market Cap / Sales	2.2	2.3	2.1	1.9
Price to Book Value	1.7	1.7	1.7	1.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	6.6	5.5	6.3	6.3
Quick Ratio	2.3	1.7	2.0	2.0

Source: Company, ICICI Direct Research

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Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal  
Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Prabodh Avadhoot Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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